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C O N F I D E N T I A L SECTION 01 OF 03 SEOUL 10275

PASS TREASURY, COMMERCE, EXIMBANK, AGRICULTURE

E.O. 12065: GDS 7/5/85 (GEBER, A.) OR-E
TAGS: ECON, OVIP, KS
SUBJECT: ECONOMIC ASPECTS OF SUMMIT MEETING

1. (C - ENTIRE TEXT). AS ENVISAGED, THE SUMMIT MEETING ITSELF TOUCHED UPON ECONOMIC SUBJECTS ONLY IN GENERAL TERMS. THE ACHIEVEMENTS OF THE KOREAN ECONOMY WERE RECOGNIZED AND PRAISED BY THE U.S. SIDE. BOTH SIDES EMPHASIZED THE IMPORTANCE OF EXPANDING TRADE AND MAINTAINING AN OPEN WORLD TRADING SYSTEM. THE U.S. SIDE NOTED THE IMPORTANCE OF MAINTAINING AN APPROXIMATE BALANCE IN TRADE BETWEEN CERTAIN COUNTRIES SUCH AS THE U.S. AND KOREA.

2. THE MAIN ECONOMIC DISCUSSIONS WERE CONDUCTED BY SECRETARY OF THE TREASURY BLUMENTHAL, WHO MET WITH SIX ECONOMIC MINISTERS OF THE ROKG: DEPUTY PRIME MINISTER AND MINISTER FOR ECONOMIC PLANNING SHIN HYON-HWACK, MINISTER OF FINANCE KIM WOUN-KIE, MINISTER OF COMMERCE AND INDUSTRY CHOI GAK-KYU, MINISTER OF ENERGY AND RESOURCES
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CHANG YIE-JOON, MINISTER OF AGRICULTURE AND FISHERIES LEE HEE-IL, MINISTER OF COMMUNICATIONS LEE JAE-SUL. SECRETARY

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DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY KBO DATE 5/21/82
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TS AUTH. REASON(S)
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BLUMENTHAL WAS ACCOMPANIED BY MR. RICHARD FISHER OF THE U.S. TREASURY, MR. ANTHONY GEBER ECON/COM COUNSELOR, AND MR. GERALD SHELDEN, AGRICULTURE ATTACHE. THE KOREAN MINISTERS WERE ACCOMPANIED BY THEIR SENIOR MINISTRY OFFICIALS.

3. IN HIS WELCOMING REMARKS THE DEPUTY PRIME MINISTER GAVE A BRIEF OUTLINE OF PRESENT KOREAN ECONOMIC POLICIES WHICH HE CHARACTERIZED AS GOING BEYOND STABILIZATION POLICIES AND ARE AIMED AT RESTRUCTURING THE ECONOMY WITH A VIEW TO STRENGTHENING THE POTENTIAL FOR SUSTAINED, LONG TERM GROWTH. INCREASED RELIANCE IS PLACED ON COMPETITION AND THE MARKET MECHANISM, AND IMPORT LIBERALIZATION PLAYS A KEY ROLE. THE DPM EMPHASIZED THAT IMPORT LIBERALIZATION POLICY IS PURSUED BY KOREA AT A TIME WHEN THE REST OF THE WORLD IS MOVING IN THE OPPOSITE DIRECTION. TURNING TO KOREA'S LONGER TERM PROSPECTS THE DPM EXPRESSED OPTIMISM THAT KOREA WILL BE ABLE TO SUSTAIN HER HIGH GROWTH MOMENTUM FOR ANOTHER TEN YEARS OR SO. THIS OPTIMISM IS BASED ON FOUR CONSIDERATIONS. KOREA'S HIGHLY EDUCATED AND STRONGLY MOTIVATED LABOR FORCE IS EXPECTED TO GROW AT THE MINIMUM OF 3 PERCENT PER YEAR FOR ANOTHER TEN YEARS AT LEAST. THE POTENTIAL FOR ACCELERATING GROWTH THROUGH TECHNICAL IMPROVEMENT IS GREAT; KOREA'S ABSORPTION CAPACITY HAS BEEN EXCELLENT AND THERE IS STILL A WIDE RANGE OF TECHNOLOGY THAT KOREAN ENTREPRENEURS CAN READILY EXPLOIT. DESPITE DARK CLOUDS ON THE INTERNATIONAL ECONOMIC HORIZON, SUCH AS PROTECTIONISM AND RESOURCE NATIONALISM, THERE ARE NEW OPPORTUNITIES FOR GROWTH THROUGH ECONOMIC COOPERATION WITH MANY COUNTRIES IN ASIA, THE MIDDLE EAST, AND AFRICA; IN THIS REGARD KOREA IS LUCKY TO FIND ITSELF AT THIS POINT IN

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ITS HISTORY AT THE CENTER OF THE MOST ECONOMICALLY DYNAMIC REGION OF THE WORLD TODAY, NAMELY THE PACIFIC BASIN. FOR ACTIVE PARTICIPATION OF THE DEVELOPMENT OF THIS REGION IN PARTICULAR, KOREA LOOKS FORWARD TO A JOINT VENTURE RELATIONSHIP WITH THE UNITED STATES. LASTLY, THE DPM EXPRESSED FAITH IN THE ABILITY OF THE KOREAN PEOPLE TO WORK WITH OTHERS AND TO READILY ADAPT TO THE CHANGING WORLD ENVIRONMENT AS SHOWN BY THE MANAGEMENT OF THE KOREAN ECONOMY FOLLOWING THE OIL CRISIS OF 1973. THE DPM CITED THE LATEST WORLD BANK REPORT, ACCORDING TO WHICH KOREA HAS A REAL CHANCE TO CONTINUE WITH HIGH GROWTH THROUGH THE DECADE OF

THE 1980'S AND TO JOIN THE RANKS OF INDUSTRIALLY DEVELOPED COUNTRIES BY THE EARLY 90'S. HE SAID THAT NO EFFORT WILL BE SPARED TO CARRY OUT THAT PREDICTION.

4. AFTER A SLIDE PRESENTATION ON THE PRESENT PERFORMANCE, GOALS AND PROSPECTS OF THE KOREAN ECONOMY, SECRETARY BLUMENTHAL WAS ASKED TO BRIEF THE KOREAN MINISTERS ON THE OUTCOME OF THE TOKYO ECONOMIC SUMMIT MEETING. ENERGY WAS THE SINGLE THEME OF THE TOKYO SUMMIT, ACCORDING TO MR. BLUMENTHAL, AND HE CHARACTERIZED THE OUTCOME OF THE MEETING AS THE FIRST RESPONSE BY THE INDUSTRIALIZED COUNTRIES TO RECENT DEVELOPMENTS IN ENERGY. THERE WAS A CLEAR RECOGNITION ON THE PART OF ALL PARTICIPANTS THAT ALL ENERGY IMPORTING COUNTRIES ARE FACING SEVERE DIFFICULTIES. THE IMPORTANCE OF THE MEETING WAS DRAMATIZED BY THE JUXTAPOSITION OF THE SUMMIT TO THE MEETING OF THE OPEC MINISTERS WHICH TOOK PLACE AT THE SAME TIME. THE COMMUNIQUE REPRESENTS A FULL AGREEMENT AMONG ALL THE PARTICIPANTS AND IS BASED ON THE RECOGNITION THAT THE IMMEDIATE RESPONSE TO THE OPEC PRICE HIKE--WHICH AMOUNTS TO A 60 PERCENT PRICE INCREASE OVER THE OIL PRICES WHICH PREVAILED LAST DECEMBER--MUST BE THE REDUCTION OF OIL IMPORTS. OTHER ELEMENTS OF THE AGREEMENT INCLUDE A SYSTEM OF GREATER TRANSPARENCY OF TRANSACTIONS IN THE SPOT MARKET, THE DEVELOPMENT ON A

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C O N F I D E N T I A L SECTION 02 OF 02 SEOUL 10275

PASS TREASURY, COMMERCE, EXIMBANK, AGRICULTURE

CRASH BASIS OF ALTERNATIVE SOURCES OF ENERGY, AND CONCERN FOR AND COOPERATION WITH LDC'S IN THE DEVELOPMENT OF ALTERNATIVE SOURCES OF ENERGY. THE BIG SEVEN ALSO RECOGNIZED THAT PROTECTIONISM AND INFLATION ARE GOING TO BE AGGRAVATED BY THE ESCALATING ENERGY CRISIS AND WILL NEED TO BE FOUGHT AND RESISTED EVEN HARDER. THEY AGREED TO IMPLEMENT THE MTN AND TO KEEP AN OPEN TRADING ENVIRONMENT. INFLATION WILL HAVE TO BE FOUGHT BY POLICIES DIRECTED AT SUPPLY CONDITIONS, BY INCREASING PRODUCTIVITY AND BY PROTECTING THE INTEGRITY OF THE WORLD MONETARY SYSTEM. THE SUMMIT MEETING ALSO DEALT WITH THE INDOCHINA REFUGEE SITUATION WHICH REQUIRES CONCERTED ACTION, BOTH IN PROVIDING REFUGE AND MONETARY CONTRIBUTIONS.

5. SECRETARY BLUMENTHAL'S PRESENTATION OF THE TOKYO SUMMIT ACHIEVEMENTS WAS VERY WELL RECEIVED BY THE MINISTERS WHO SHOWED GREAT INTEREST IN A NUMBER OF DETAILS REGARDING THE WORLD AND THE U.S. ENERGY SITUATION. TURNING TO BILATERAL AND MULTILATERAL TRADE ISSUES, SECRETARY BLUMENTHAL COMMENTED FAVORABLY ON THE IMPRESSIVE GROWTH OF KOREAN
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EXPORTS AND IMPORTS AS SHOWN IN THE ROKG PRESENTATION. HE ALSO EXPRESSED THE HOPE THAT U.S.-ROK TRADE WILL CONTINUE

TO EXPAND. HE RECOGNIZED THAT THERE EXIST PROTECTIONIST PRESSURES IN THE UNITED STATES AND THAT UNDER THE PROSPECTS OF AN ECONOMIC SLOW DOWN AND INCREASED INFLATIONARY PRESSURES, PROTECTIONISM IS ALSO LIKELY TO BE ON THE RISE, PARTICULARLY FOR SOME HIGHLY LABOR INTENSIVE GOODS IMPORTS. STILL THE U.S. ADMINISTRATIONAND PRESIDENT CARTER PERSONALLY ARE OPPOSED TO PROTECTIONISM AND WILL RESIST SUCH FORCES AS MUCH AS POSSIBLE. SECRETARY BLUMENTHAL URGED THE ROKG TO SIGN THE MTN. HE RECALLED HIS DAYS AS KENNEDY-ROUND NEGOTIATOR FOR THE U.S. AT THAT TIME THE JAPANESE *TOOK A VERY ACTIVE ROLE IN THE NEGOTIATIONS BECAUSE THEY* REALIZED THAT ALTHOUGH THOSE TRADE AGREEMENTS REQUIRED SOME SACRIFICES ON THEIR PART, THEIR MAJOR INTEREST WAS TO SEE THAT TRADE BARRIERS WERE REDUCED. KOREA SHOULD CONSIDER ITSELF IN A SIMILAR POSITION TODAY. BLUMENTHAL ALSO URGED THAT KOREA PARTICIPATE IN THE MTN CODES. LASTLY, SECRETARY BLUMENTHAL EXPRESSED APPRECIATION FOR KOREAN POLICY WHICH PERMITS THE UNITED STATES TO MAINTAIN A PREEMINENT SHARE IN KOREA'S IMPORTANT AGRICULTURAL MARKET, AND HE EXPRESSED STRONG U.S. GOVERNMENT INTEREST IN THE NUCLEAR POWER PLANT AND ELECTRIC SWITCHING SYSTEM PROJECTS, TWO VERY LARGE PROJECTS WHERE HE BELIEVED THAT HIGH QUALITY AMERICAN TECHNOLOGY CAN MAKE A MAJOR CONTRIBUTION TO THE KOREAN ECONOMY.

6. DPM SHIN RESPONDED BY SAYING THAT THE KOREAN GOVERNMENT GIVES SPECIAL CONSIDERATION TO ITS TRADE RELATIONS WITH THE UNITED STATES. HE CALLED UPON MINISTER OF COMMERCE CHOI TO RESPOND TO BILATERAL AND MULTILATERAL TRADE ISSUES. MINISTER CHOI EXPRESSED CONCERN ABOUT GROWING AMERICAN PROTECTIONISM, CITED THE OMA'S, THE TRIGGER PRICE MECHANISM

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AND ANTI-DUMPING AND COUNTERVAILING DUTIES AS OBSTRUCTING KOREAN EXPORTS AND STATED THAT 34 PERCENT OF KOREAN EXPORTS ARE SUBJECT TO ONE KIND OR ANOTHER OF U.S. IMPORT RESTRICTIONS. HE URGED THE U.S. TO LIFT ITS TRADE RESTRICTIONS ON KOREAN EXPORTS. REGARDING THE MTN MINISTER CHOI SAID THAT THE KOREAN GOVERNMENT IS NOW SERIOUSLY REVIEWING THE MTN. THE ROKG HAS SOME PROBLEMS WITH SOME OF THE CODES, SPECIFICALLY WITH THE SUBSIDIES CODE AND ESPECIALLY WITH THE YET *TO BE NEGOTIATED SAFEGUARD CODE. HE APPEALED TO THE U.S. TO HELP KOREA AND OTHER DEVELOPING COUNTRIES TO RESIST THE* INTRODUCTION OF SELECTIVE SAFEGUARDS. AGRICULTURE MINISTER

LEE SAID THAT KOREA IS SATISFIED WITH ITS AGRICULTURE TRADE RELATIONS WITH THE UNITED STATES AND HOPES TO CONTINUE THAT RELATIONSHIP. MINISTER OF ENERGY AND RESOURCES CHANG SAID IN RESPONSE TO THE REQUEST FOR FAVORABLE CONSIDERATION ON THE NUCLEAR POWER PLANTS, THAT THERE IS VERY KEEN COMPETITION FOR THAT PROJECT AND THAT THE AMERICAN SUPPLIERS ARE NOT IN A FAVORABLE POSITION AS REGARDS THE PRICE OF THEIR BID AND THE FINANCING TERMS. MINISTER OF COMMUNICATIONS LEE SAID THE SAME THING REGARDING THE ESS PROJECT. BOTH MINISTERS STRESSED THAT THE DECISION HAS TO BE MADE ON THE BASIS OF INTERNATIONAL COMPETITIVE BIDDING. THEY URGED IMPROVEMENT OF THE FINANCIAL TERMS BUT THEY ALSO AGREED THAT "GENERAL TRADE RELATIONS" WILL BE TAKEN INTO ACCOUNT.

7. SECRETARY BLUMENTHAL REITERATED THE ADMINISTRATION'S BASIC OPPOSITION TO PROTECTIONISM. HE POINTED OUT THAT THE TRIGGER PRICE MECHANISM WAS THE LEAST PROTECTIONIST SOLUTION TO THE STEEL TRADE SITUATION WHEN THE ADMINISTRATION WAS UNDER VERY STRONG PRESSURE TO IMPOSE QUOTAS. REGARDING THE NUCLEAR POWER AND ESS PROJECTS, SECRETARY BLUMENTHAL MENTIONED STRONG CONGRESSIONAL INTEREST INCLUDING A MESSAGE SIGNED BY HALF A DOZEN CONGRESSMEN, SOME OF THEM VERY INFLUENTIAL ON TRADE LEGISLATION. IF KOREA COULD AWARD THESE CONTRACTS TO AMERICAN SUPPLIERS THIS COULD BE
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